January 2010

Dear Trustee or Executor:

While tax matters affecting 2009 were relatively unchanged, there is almost complete uncertainty concerning 2010 due to Congress' inaction on estate taxes. The following is a summary of some of the more important points for 2009 and 2010.

10% Tax Bracket: Unlike individuals, trusts and estates do NOT receive a 10% tax rate bracket. The lowest rate starts at 15%.

General Tax Rules: Please keep in mind that the top federal tax rate of 35% is effective for taxable incomes in 2009 of $11,150 ($11,200 for 2010). This is much less favorable than the individual tax brackets.

Capital Gains and Dividends: The maximum tax rate for long-term capital gains and qualifying dividends is 15% for 2009. It currently remains at 15% for 2010, but that could readily change later in the year.

Gift Tax Exclusion: For 2009 and 2010, the limit is $13,000 per donee from each donor. Married couples can *each* give up to $13,000 per donee without triggering reporting requirements. However, split gifts would necessitate the filing of a Gift Tax Return.

Federal Estate Taxes 2009: The applicable exclusion amount for federal estate tax purposes was $3,500,000 - with a top tax rate of 45%. The lifetime gift tax exemption remained capped at $1,000,000.

Federal Estate Taxes 2010: At this writing, there no longer is any federal estate tax for 2010. Please note that the step-up in basis of assets held by the decedent at death also essentially is gone. Instead, the tax cost basis in the hands of the decedent now passes to the beneficiary, subject to some modifications. ***This new basis procedure fundamentally applies to all estates regardless of size***.

Gift Tax 2010: Because the estate tax is repealed, at least for now, gifts in excess of the $13,000 annual exclusion will be taxed at 35%, if lifetime cumulative taxable gifts exceed $1,000,000.

Reminder to Fiduciaries: If you are the fiduciary of a trust that is required by the trust document to distribute the annual income of the trust, it is important that this be done every year. Careful planning and strict adherence to the terms of a trust are most important. Significant negative tax consequences may be the result if trusts are treated lightly and an unwitting tax transgression occurs.

Our standard engagement letter is enclosed along with our checklist. Please answer the questions on the checklist, sign the letter, and return both to us. We cannot begin your tax returns until we have received the signed engagement letter.

We encourage you to meet with us or bring in your tax data as early as is reasonable - but please do your best to have complete information. We try to prepare returns on a first-come, first-served basis once we have all the data needed - but we cannot avoid putting returns on extension if much is still missing by the 15th of March.

We look forward to working with you, and please call if there are any questions. You may also communicate with us at www.herrickltd.com.

Sincerely,

Herrick, Ltd. CPAs